COMPANY RESEARCH AND ANALYSIS REPORT

Mipox Corporation

5381

Tokyo Stock Exchange JASDAQ

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Index

Summary

A specialist manufacturer of abrasive papers, polishing films, liquid polishing compounds and more, mainly for high-tech industries. Its advanced technical capabilities has earned it the strong trust of its customers.

Mipox <5381> (hereafter, also "the Company) is a specialist manufacturer of special polishing materials and polishing machines. It has a long history dating back to its establishment in the 1920s and currently it has high shares in various high-tech markets, including for hard disk drives (HDD), optical fiber, and semiconductors. Its product users are spread across a wide range of industries, including electrical machinery, automotive, and precision instruments.

1. Major increase in sales in FY3/17 from the effects of Nihon Kenshi, but profits declined from the costs associated with its acquisition

In the FY3/17 consolidated results, net sales were ¥6,410mn (up 52.5% year-on-year (YoY)), operating income was ¥223mn (down 56.1%), ordinary income was ¥149mn (down 70.9%), and the net loss attributable to the owners of the parent was ¥147mn (compared to net income of ¥323mn in the previous fiscal year). On the one hand, sales greatly increased due to Nihon Kenshi Co., Ltd., being made a subsidiary in July 2016, but on the other hand, operating income and ordinary income both declined because of the higher costs associated with its acquisition. In addition, due to the recording of an extraordinary loss of an impairment loss on subsidiaries, etc., of ¥165mn, the net loss attributable to the owners of the parent was ¥147mn.

2. The priorities for FY3/18 are strengthening profitability and organization capabilities to solidify the foundations for the future.

The forecasts for FY3/18, which is currently underway, are for net sales of ¥8,000mn (up 24.8% YoY), operating income of ¥448mn (up 100.9%), ordinary income of ¥417mn (up 179.9%), and net income attributable to the owners of the parent of ¥306mn (compared to a loss of ¥147mn in the previous fiscal year). Sales are expected to increase from the full fiscal year contribution to net sales of Nihon Kenshi, which was made a subsidiary in the previous fiscal year, as well as from the steady growth in sales of the mainstay polishing materials. In terms of profits, rather than a dramatic recovery in this fiscal period, moderate growth is expected as the Company is prioritizing strengthening its organizational capabilities to solidify the foundations for the future.

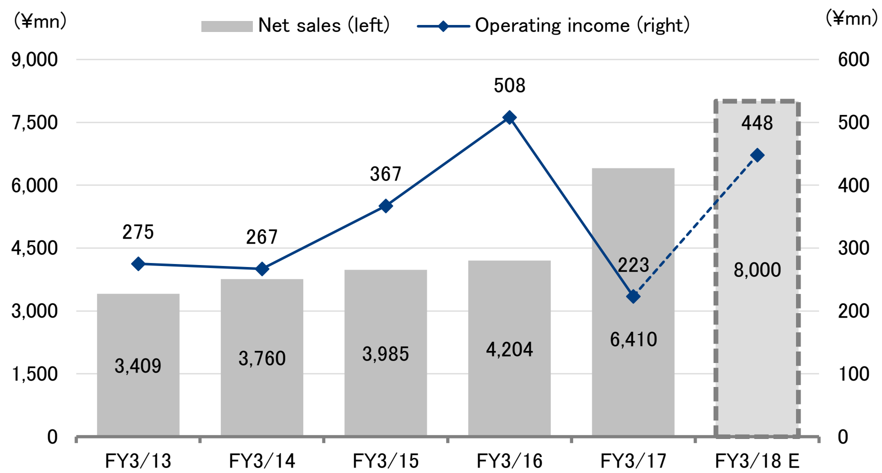
3. Will realize fully-fledged growth from FY3/19 onwards

The Company initially forecast a double-digit recovery in the operating margin for FY3/18, which is currently underway. But it has reviewed the overall plan, including the targets for improved profits at Nihon Kenshi, and as a result, it has changed the plan for the current fiscal period (FY3/18) to realize a growth scenario in the future by slowing the pace of growth compared to the initial targets and focusing instead on firmly solidifying foundations. Due to this change, it now anticipates realizing fully-fledged growth from FY3/19 onwards.

Key Points

- Its main business is polishing materials for high-tech industries, but it is also using M&A to expand into low-end products.
- Profits will recover in FY3/18, but it has been positioned as a year to solidify foundations
- Plans to realize fully-fledged profit growth from FY3/19 onwards

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Is a specialist manufacturer of polishing materials with a long history and has high shares in high-tech markets

1. Company profile

The predecessor of the Company was established as an independent pigment affiliate company from the spin-off of the pigment and foil department of the L. Raybould commercial office. After that, it began producing polishing materials, including various types of polishing tapes, and then in 1981 it changed its company name to Japan Micro Coating Co. Ltd., and unified its products under the Mipox brand. Since the 1990s, it has marked-launched various products, including liquid crystal panel cleaners, silicon wafer edge polishers, and polishing slurry, and then in 2013 it changed its company name to Mipox Corporation. It was listed on the over-the-counter market (currently, the JASDAQ market) in 2001, while it made a subsidiary of Nihon Kenshi in July 2016.

2. History

History

Date	History
November 1925	GERMAN Pigment Partnership established through a spin-off of the pigment and foil division of L.Raybould Mercantile Establishment.L.LEYBOLT SHOKWAN.
December 1941	Re-established as German Pigment Co., Ltd.
September 1970	Started sales of the Finishing Tape brand of polishing tapes.
April 1981	Corporate name changed to Nihon Micro Coating Co., Ltd. Product brand was unified as MIPOX.
November 1989	MIPOX International Corporation (MIC) established in California, USA.
August 1993	LCD panel cleaner developed.
February 1994	Silicon wafer edge polisher developed.
October 1995	Polishing slurry developed.
February 2001	Stock listed on the over-the-counter market Capital increased to ¥1,998.7mn.
June 2008	Jun Watanabe assumed President & CEO.
June 2009	Business alliance with RIKEN CORUNDUM Co.,Ltd.
July 2013	Changed of Brand LOGO.
August 2013	Company name changed to Mipox Corporation.
July 2016	Nihon Kenshi Co., Ltd., a wholly-owned subsidiary, established.
February 2017	The head office was relocated to Shinjuku Ward, Tokyo.

Source: Prepared by FISCO from the Company's website and securities report

Business overview

Its main business is polishing materials for high-tech industries, but it is also using M&A to expand into low-end products

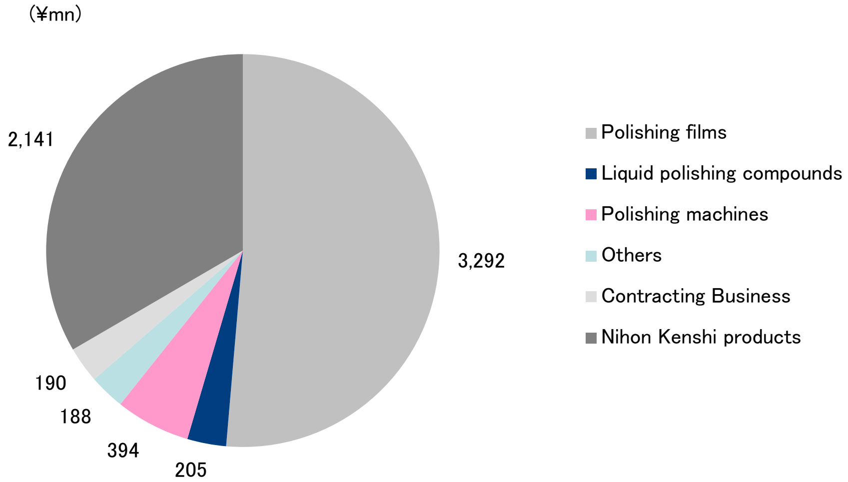
1. Main products

The Company's main business is the manufacture of products such as polishing films, abrasive papers, and liquid polishing compounds that are used for polishing various products and parts. Other than this, it designs and sells polishing machinery and provides contracted services, including for the manufacture of functional films and for polishing processing. In terms of segments, it discloses information on the Product Business and the Contracting Business, and in FY3/17, the Product Business net sales were ¥6,219mn and the Contracting Business net sales were ¥190mn.

Also, in the net sales (FY3/17) by product disclosed in the financial results briefing materials*, they were ¥3,292mn for polishing films (51.4% of total net sales), ¥205mn for liquid polishing compounds (3.2%), ¥394mn for polishing machines (6.1%), ¥188mn for others (2.9%), ¥190mn for the Contracting Business (2.9%), and ¥2,141mn for Nihon Kenshi products (33.4%).

* Some of the figures disclosed in the financial results summary are different to those in the briefing materials. Also, Nihon Kenshi net sales are for 9 months, from Q2.

Net sales by product(FY3/17)



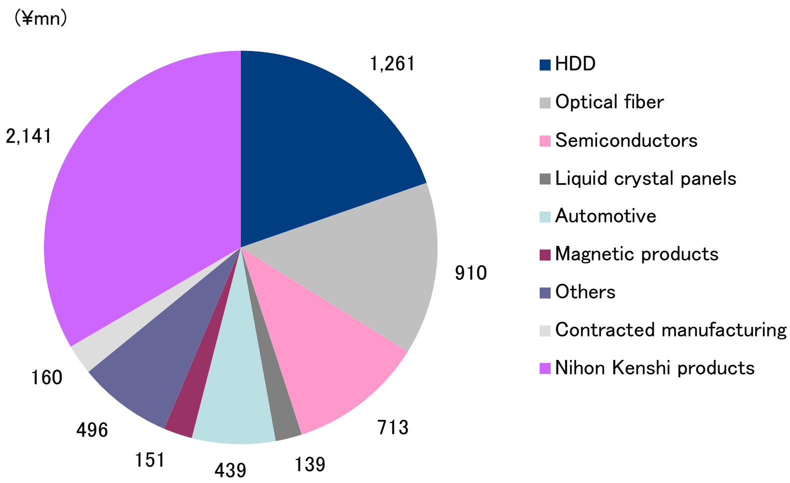
Source: Prepared by FISCO from the Company's results briefing materials

In the Contracting Business, the Company mainly manufactures functional films and carries out polishing processing in accordance with customer orders, and it responds to a wide range of requests, from small lots of just a few items to large lots. Although it only records the processing fees as net sales, the profit margin changes according to the order lot, because larger lots improve the operating rates of the machinery in the Company's factories.

2. Net sales by application

In addition, the net sales by the main industries that the products are sold to (net sales by application, FY3/17) were ¥1,261mn for HDD (19.7% of total net sales), ¥910mn for optical fiber(14.2%), 713mn for semiconductors (11.1%), ¥139mn for liquid crystal panels (2.2%), ¥439mn for automotive (6.8%), ¥151mn for magnetic products (2.4%), ¥496mn for others (7.7%), ¥160mn for contracted manufacturing (2.5%), and ¥2,141mn for Nihon Kenshi products (33.4%). The gross margin is comparatively high for high-tech products and low for general-purpose products.

Net sales by application (FY3/17)



Source: Prepared by FISCO from the Company's results briefing materials

(1) For HDD

These products are used for polishing the surfaces of HDD (media). In particular, the Company has a 100% share of the global market for the precision polishing film that is used in the final processing of HDD manufacturing.

(2) For optical fibers

These products are used for polishing the connecting end surfaces of optical-fiber connectors. They are mainly sold in the North America, Europe, and China markets

(3) For semiconductors

The first product is used for polishing the edges, rather than the surfaces, of the silicon wafers. The second product is used for cleaning the probe cards that are used when testing the semiconductors. There are other uses for these, too.

(4) For liquid crystal panels

These products are used to remove the shavings and resin that are generated during the production process.

(5) For automotive

These products are used for polishing automotive parts, including vehicle engines and transmission shafts.

(6) For magnetic products

These products are mainly used for polishing the surfaces of magnetic tape used for recording.

(7) Others

These include products other than high-tech related and for general consumers.

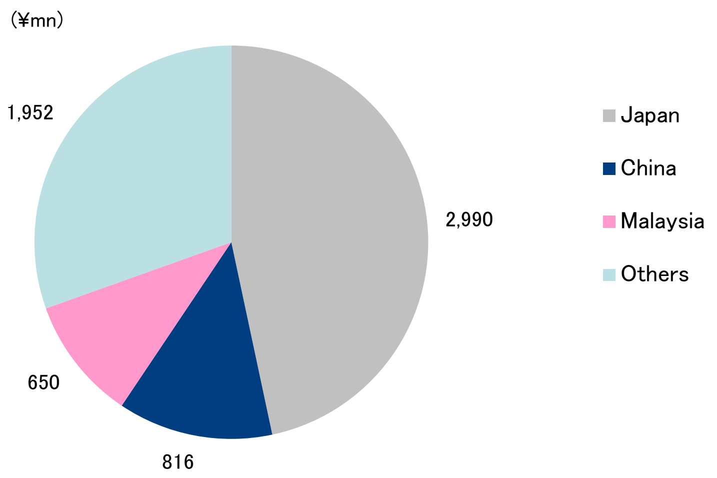
(8) Nihon Kenshi products

These include water-resistant abrasive paper, polishing cloths, fiber-disc products, and fine-diamond products. Many of them can be broadly described as somewhat low-end products.

3. Net sales by region

The Company currently has three domestic manufacturing bases (Yamanashi, Kyoto, and Fukuyama), including Nihon Kenshi, and three overseas bases (India, Malaysia, and China). It also has 8 domestic sales offices (including the head office that is also a manufacturing base) and 12 overseas sales offices. Reflecting the fact that many of its customer are high-tech related global companies, the net sales by region (FY3/17) are ¥2,990mn from Japan (46.7% of total net sales), ¥816mn from China (12.7%), ¥650mn from Malaysia, (10.1%), and ¥1,952mn from others (30.5%).

Net sales by region (FY3/17)



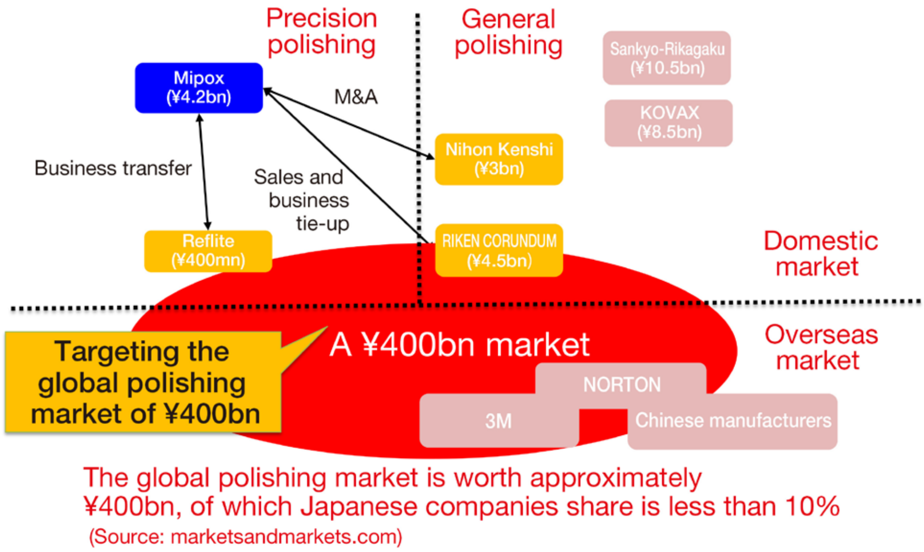
Source: Prepared by FISCO from the Company's financial results

4. Market share and competition

The Company makes many types of polishing-related products, but there are no accurate statistics on them by individual product. Also, since many of its customers are global companies, such as for its polishing films for high-tech products that are its mainstay product, it is necessary to see the market as a global one. According to the Company's estimates, the global polishing materials market is worth approximately ¥400bn, of which, the share of Japanese manufacturers, including the Company, is less than 10%.

Companies such as Norton (currently part of the Saint-gobain Group), 3M, and Chinese companies have comparatively high shares of the global market. There can be said to be four major manufacturers in the domestic market, Sankyo-Rikagaku Co., Ltd., KOVAX Corporation, RIKEN CORUNDUM CO., Ltd. <3595>, and Nihon Kenshi. As Nihon Kenshi joined its Group following the M&A, the Company can now be said to be one of the top four manufacturers in Japan.

Future growth scenario ~the target markets~



Source: Prepared by FISCO from the Company's results briefing materials

However, in many of the above-mentioned domestic manufacturers, a high percentage of total net sales is provided by general-purpose products, but a low percentage by high-tech products. While there are no exact figures, it seems that the Company's shares of high-tech product markets are high and are over 50% for many of its products. There are even products for which it has close to a 100% share, such as for polishing HDD. In this way, the height of the Company's share indicates the trust that its customers place in it, but also that it has entered-into small (niche) markets, and the fact that there are few other entrants in these markets is one of the reasons for its high market shares.

5. Features and strengths

(1) Advanced coating technical expertise

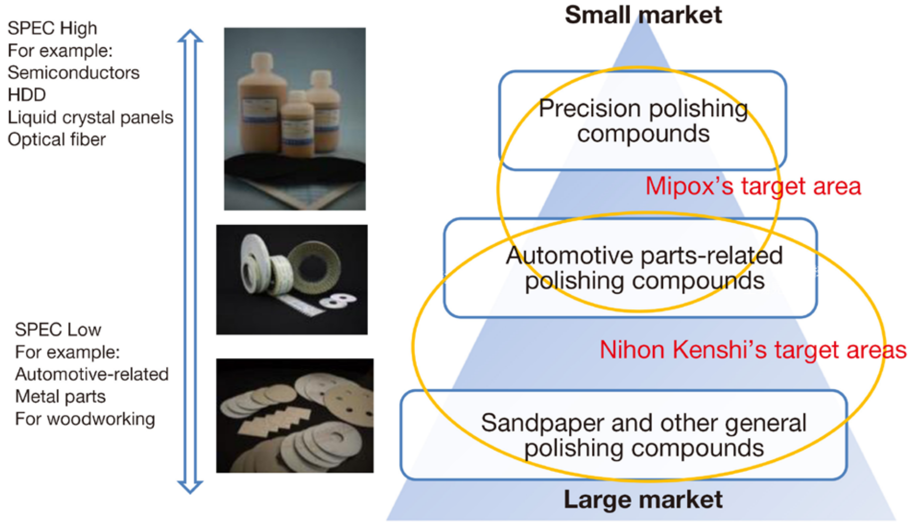
The Company's greatest strength is its coating technologies that it has cultivated since long ago. Of course, it also has high-level technical capabilities for the preparation of polishing materials, and it can be said that a feature and strength of the Company is that these polishing materials can be coated to produce polishing films suitable for micro-fabrication. The provision of polishing materials in a film form makes possible many high-tech products and also the polishing of precision products, as previously described. It is not an easy tasks for the Company's industry peers to keep up with its coating technologies, which means that it able to maintain high market shares and gross margins.

(2) An extensive product lineup and one-stop solutions

The Company's mainstay products up to the present time have mainly been polishing films and liquid polishing compounds for high-tech products, which are high-end products found in small niches of the market as a whole. But currently, the products of Nihon Kenshi, which can be said to be strong in low-end products, have been added to these products, so it has enhanced its product lineup that now extends from high-end to low-end.

The Company also conducts the Contracting Business and its basic policy is to accept even small-volume orders. This enables customers to use the Company not only for all the products that they need, but also to order small-volume polishing processing. In other words, they can receive a one-stop solution and this strengthens the relations of trust between the Company and its customers, which can be said to be another of its strengths.

Future growth scenario ~the targets markets~



Source: Prepared by FISCO from the Company's results briefing materials

(3) A robust, strong organization

Another feature and strength of the Company is that it thoroughly shares information in-house. Apart from some classified information, practically all data and information is notified to and shared with each of its employees. This reduces unnecessary paper documents, meetings, and so on, and also facilitates rapid decision making. While its scale of sales is still small, it can be said that the Company is extremely robust and strong as an organization.

Results trends

Major increase in sales in FY3/17 from the effects of Nihon Kenshi, but profits declined from the costs associated with its acquisition

1. Summary of the FY3/17 results

(1) Status of profit and loss

In the FY3/17 consolidated results, net sales were ¥6,410mn (up 52.5% YoY), operating income was ¥223mn (down 56.1%), ordinary income was ¥149mn (down 70.9%), and the profit attributable to the owners of the parent was ¥147mn (compared to net income of ¥323mn in the previous fiscal year).

Net sales increased greatly due to the addition of the sales of Nihon Kenshi (for nine months), which was made a subsidiary in July 2016. But operating income and ordinary income decreased because the gross margin declined from 50.6% in the previous fiscal year to 38.2% following a change to the product structure, and also because of the higher costs associated with the acquisition of Nihon Kenshi. The Company also record an extraordinary loss, of an impairment loss of ¥165mn for the Indian subsidiary and Mipox Kyoto Corporation. As a result, the profit attributable to the owners of the parent was ¥147m.

The cost of acquiring Nihon Kenshi was ¥1,293mn and goodwill of ¥317mn was generated (scheduled to be amortized over 10 years).

FY3/17 consolidated results

(¥mn, %)

	FY3/16		FY3/17			
	Amount	% of sales	Amount	% of sales	Change	% change
Net sales	4,204	100.0	6,410	100.0	2,205	52.5
Gross profit	2,127	50.6	2,448	38.2	320	15.1
SG&A expenses	1,619	38.5	2,225	34.7	605	37.4
Operating income	508	12.1	223	3.5	-284	-56.1
Ordinary income	513	12.2	149	2.3	-364	-70.9
Profit attributable to owners of parent	323	7.7	-147	-	-470	-145.4

Source: Prepared by FISCO from the Company's financial results

(2) Status by business segment

In the Product Business, net sales were ¥6,219mn (up 58.2% YoY), including due to the effects of Nihon Kenshi, but segment income was ¥436mn (down 48.7%) because of changes to the product structure.

In the Contracting Business, net sales were ¥190mn (down 30.5%) as orders trended sluggishly. However, the segment loss improved to ¥212mn (compared to a loss of ¥342mn in the previous fiscal year) due to changes to the content of orders.

Results by segment

(¥mn, %)

	FY3/16		FY3/17			
	Amount	% of sales	Amount	% of sales	Change	% change
Net sales	4,204	100.0	6,410	100.0	2,205	52.5
Product Business	3,930	93.5	6,219	97.0	2,289	58.2
Contracting Business	274	6.5	190	3.0	-83	-30.5
Operating income	508	12.1	223	3.5	-284	-56.1
Product Business	850	-	436	-	-414	-48.7
Contracting Business	-342	-	-212	-	129	-

Source: Prepared by FISCO from the Company's financial results

(3) Net sales by application

Looking at net sales by the main types of application, HDD-related were ¥1,261mn (down 8.3% YoY) due to declines in liquid polishing compounds and polishing-related products. Optical fiber-related were ¥910mn (down 16.8%) from the impact of price competition in the Chinese market. Semiconductors-related rose significantly to ¥713mn (up 65.8%) from the increase in orders for polishing machines, but since the gross margin of machines is not very high, it also affected the overall gross margin. Automotive-related were ¥439mn (up 4.8%), as sales trended strongly both domestically and overseas. As already stated, sales from contracted manufacturing declined due to the slump in orders. The Company also recorded an additional ¥2,141mn as Nihon Kenshi's net sales (for nine months).

Net sales by application

(¥mn, %)

	FY3/16		FY3/17			
	Amount	% of sales	Amount	% of sales	Change	% change
HDD	1,375	32.7	1,261	19.7	-114	-8.3
Optical fiber	1,094	26.0	910	14.2	-184	-16.8
Semiconductors	430	10.2	713	11.1	283	65.8
Liquid crystal panels	154	3.7	139	2.2	-15	-9.7
Automotive	419	10.0	439	6.8	20	4.8
Magnetic products	133	3.2	151	2.4	18	13.5
Others	344	8.2	496	7.7	152	44.2
Contracted manufacturing	255	6.1	160	2.5	-95	-37.3
Nihon Kenshi products	0	0.0	2,141	33.4	2,141	-

Source: Prepared by FISCO from the Company's results briefing materials

(4) Net sales by product

Looking at net sales by product, polishing film sales declined to ¥3,292mn (down 1.6% YoY), mainly due to the lower sales in the optical fiber-related market. Liquid polishing compound sales were ¥205mn (down 20.5%), primarily from the fall in HDD-related. Polishing machines sales were ¥394mn (up 162.7%) because of a large-scale order, buts its contribution to the gross margin was small.

Net sales by product

(¥mn, %)

	FY3/16		FY3/17			
	Amount	% of sales	Amount	% of sales	Change	% change
Polishing films	3,347	79.6	3,292	51.4	-55	-1.6
Liquid polishing compounds	258	6.1	205	3.2	-53	-20.5
Polishing machines	150	3.6	394	6.1	244	162.7
Others	173	4.1	188	2.9	15	8.6
Contracting Business	276	6.6	190	2.9	-86	-31.1
Nihon Kenshi products	0	0.0	2,141	33.4	2,141	-

Source: Prepared by FISCO from the Company's results briefing materials

2. Financial condition

At the end of March 2017, total assets were up ¥4,030mn on the end of the previous fiscal year to ¥11,347mn. Current assets rose ¥2,655mn to ¥7,258mn, which was mainly due to increases in cash and deposits of ¥615mn, notes and accounts receivable-trade of ¥834mn, and inventory assets of ¥1,169mn. Conversely, non-current assets rose ¥1,374mn to ¥4,088mn from the increases in tangible non-current assets of ¥802mn due to capital investment, in intangible non-current assets of ¥222mn because of the rise in goodwill after Nihon Kenshi becoming a subsidiary, and in investments and other assets of ¥349mn following an increase in retirement benefits-related assets.

Total Liabilities were up ¥4,356mn on the end of the previous fiscal year to ¥6,716mn. Current liabilities rose ¥2,695mn, which was mainly due to increases in notes and accounts payable-trade of ¥544mn due to the effects of Nihon Kenshi, and in short-term loans payable of ¥1,460mn. Non-current liabilities rose ¥1,660mn, primarily because of an increase in long-term loans payable of ¥1,555mn. Within the long-term loans payable amount, approximately ¥2,000mn was inherited from Nihon Kenshi.

Net assets were down ¥326mn on the end of the previous fiscal year to ¥4,630mn, mainly due a decline in retained earnings of ¥252mn, including because of the recording of a net loss.

Balance sheet

(¥mn)

	FY3/16	FY3/17	Change
Cash and deposits	2,381	2,997	615
Notes and accounts receivable – trade	947	1,782	834
Inventories	878	2,048	1,169
Total current assets	4,602	7,258	2,655
Property, plant and equipment	2,351	3,154	802
Intangible assets	270	493	222
Investments and other assets	91	440	349
Total non-current assets	2,713	4,088	1,374
Total assets	7,316	11,347	4,030
Notes and accounts payable – trade	231	776	544
Short-term loans payable	269	1,927	1,658
Total current liabilities	1,111	3,806	2,695
Bonds payable	591	468	-123
Long-term loans payable	437	1,992	1,555
Net defined benefit liability	110	131	20
Total non-current liabilities	1,249	2,910	1,660
Total liabilities	2,360	6,716	4,356
Total net assets	4,956	4,630	-326

Source: Prepared by FISCO from the Company's financial results

3. Status of cash flows

In FY3/17, cash flow from operating activities was ¥555mn. The income was mainly from depreciation expenses of ¥385mn, an impairment loss of ¥165mn, and an increase in accounts payable-other of ¥419mn, while the expenditure was primarily the increases in notes and accounts receivable-trade of ¥122mn and in inventory assets of ¥252mn. Cash flow used in investing activities was ¥674mn, mainly due to expenditure of ¥550mn to acquire tangible non-current assets. Also, cash flow from financial activities was ¥735mn, including from income of ¥1,056mn from the increase in long-term loans and ¥105mn from dividend payments.

As a result, cash flow during the period was ¥616mn and cash and cash equivalents at the end of the fiscal year were ¥2,783mn.

Cash flow statement

(¥mn)

	FY3/16	FY3/17
Cash flows from operating activities	647	555
Profit before income taxes	448	-34
Depreciation	335	385
Decrease (increase) in notes and accounts receivable - trade	-29	-122
Decrease (increase) in inventories	-110	-252
Cash flows from investing activities	-601	-674
Purchase of property, plant and equipment	-375	-550
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	-552
Cash flows from financing activities	185	735
Net increase in loans payable	158	1,056
Cash dividends paid	-78	-105
Net increase (decrease) in cash and cash equivalents	175	616
Cash and cash equivalents at the end of period	2,166	2,783

Source: Prepared by FISCO from the Company's financial results

Business outlook

Profits are expected to increase in FY3/18, but it has been positioned as a year to solidify foundations

1. Company forecast for FY3/18

The full-year forecasts for FY3/18 are for higher sales and profits, of net sales of ¥8,000mn, up 24.8% YoY, operating income of ¥448mn, up 100.9%, ordinary income of ¥417mn, up 179.9%, and profit attributable to the owners of the parent of ¥306mn (compared to a loss of ¥147mn in the previous fiscal year)

Initially the Company expected a double-digit recovery (10% or more) in the operating margin in FY3/18, but instead it has now positioned it as a year to slow the pace of growth and solidify foundations toward realizing the growth scenario in the future. Therefore, while it does expect operating income to double YoY, the profit-margin level is forecast to remain low.

In terms of relations with Nihon Kenshi, it will continue to pursue the measures from the previous fiscal year, of "exchanging human resources," "eliminating waste," "improving the system environment," and "reforming methods of working."

Company forecast for FY3/18

(¥mn, %)

	FY3/17		FY3/18 E		
	Amount	% of sales	Amount	% of sales	YoY
Net sales	6,410	100.0	8,000	100.0	24.8
Product Business	6,219	97.0	7,520	94.0	20.9
Contracting Business	190	3.0	480	6.0	152.6
Operating income	223	3.5	448	5.6	100.9
Ordinary income	149	2.3	417	5.2	179.9
Profit attributable to owners of parent	-147	-	306	3.8	-

Source: Prepared by FISCO from the Company's financial results

2. Net sales forecasts by product and by application

(1) Net sales forecasts by product

The Company is forecasting net sales by product in FY3/18 as follows. The forecast for polishing film is ¥3,537mn (up 7.4% YoY), mainly from the expected higher sales in the optical fiber-related market, while for liquid polishing compounds it is ¥237mn (up 15.6%) from the slight rise from HDD-related. The forecast for polishing machines is ¥235mn (down 40.4%) because of the decline in orders for large-scale polishing machines, which were strong in the previous fiscal year. In the Contracting Business, the forecast is ¥514mn (up 170.5%) from the acquisition of large-scale projects, while for Nihon Kenshi products, it is ¥3,123mn (up 45.9%) as it will contribute for the full 12 months and also from the growth in its overseas sales.

Net sales forecasts by product

(¥mn, %)

	FY3/17		FY3/18 E			
	Amount	% of sales	Amount	% of sales	Change	% change
Polishing films	3,292	51.4	3,537	44.2	245	7.4
Liquid polishing compounds	205	3.2	237	3.0	32	15.6
Polishing machines	394	6.1	235	2.9	-159	-40.4
Others	197	3.1	418	5.2	221	112.2
Contracting Business	181	2.8	450	5.6	269	148.6
Nihon Kenshi products	2,141	33.4	3,123	39.0	982	45.9

Source: Prepared by FISCO from the Company's results briefing materials

(2) Net sales forecasts by application

The net sales forecasts by application are as follows. HDD-related will be basically unchanged at ¥1,254mn (down 0.6% YoY), Optical fiber-related will be ¥1,043mn (up 14.6%), including due to the effects of revisions to sales prices. Semiconductors-related will be ¥609mn (down 14.6%) from the fall in sales of machinery, while automotive-related will be ¥454mn (up 3.4%), as demand will trend strongly both domestically and overseas.

Net sales forecasts by application

(¥mn, %)

	FY3/17		FY3/18 E			
	Amount	% of sales	Amount	% of sales	Change	% change
HDD	1,261	19.7	1,254	15.7	-7	-0.6
Optical fiber	910	14.2	1,043	13.0	133	14.6
Semiconductors	713	11.1	609	7.6	-104	-14.6
Liquid crystal panels	139	2.2	160	2.0	21	15.1
Automotive	439	6.8	454	5.7	15	3.4
Magnetic products	151	2.4	161	2.0	10	6.6
Others	496	7.7	715	8.9	219	44.2
Contracted manufacturing	160	2.5	481	6.0	321	200.6
Nihon Kenshi products	2,141	33.4	3,123	39.0	982	45.9

Source: Prepared by FISCO from the Company's results briefing materials

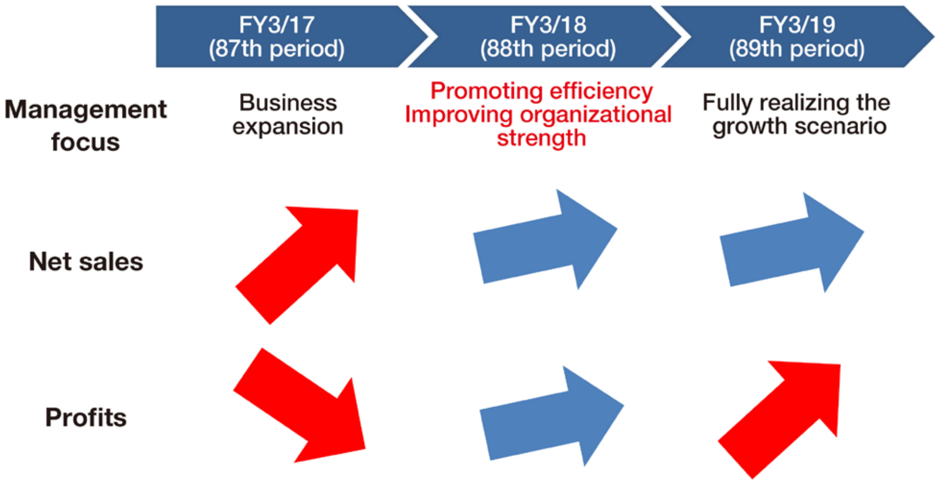
Medium- to long-term growth strategy

Aiming to solidify foundations in FY3/18 and achieve fully-fledged growth from FY3/19

1. The image of results growth

The Company initially forecast a double-digit recovery in the operating margin for FY3/18, which is currently underway. But it has reviewed the overall plan, including the targets for improved profits at Nihon Kenshi, and as a result, the plan for the current fiscal period (FY3/18) has been changed to realize a growth scenario in the future by slowing the pace of growth compared to the initial targets and focusing instead on solidifying foundations.

Image of results growth



Source: Prepared by FISCO from the Company's results briefing materials

2. Improving profits at Nihon Kenshi and strengthening organizational capabilities

Other important issues in order for the Company to expand earnings in the future are increasing profits at Nihon Kenshi, which it made a subsidiary through an M&A last year, and strengthening its organizational capabilities. In order to realize these goals, the Company is progressing the following specific measures.

(1) Improving profits: relocating the head office

Nihon Kenshi's head office has been relocated to Fukuyama, the site of the factory, and the workforce strengthened. Moreover, the Osaka sales office, which had a lot of wasted space, has been relocated and renewed.

(2) Improving profits: improving efficiency by reviewing lines of movement

The layout and other aspects of Nihon Kenshi's Fukuyama factory had not been reviewed in a long time and it could not be described as being highly efficient. Going forward, the lines of movement at the Fukuyama plant (manufacturing site) will be reviewed and the placement of equipment and personnel will be optimized for further labor saving and efficiency improvements.

(3) Improving profits: incorporating external orders

The Company currently outsources a part of its production operations to 16 outsourcer companies, but it is reviewing its production system and sequentially transferring outsourced orders to in-house production. This is reducing production costs.

(4) Improving profits: making cost prices visible

SAP (ERP), which has already been introduced into Mipox, will also be introduced into Nihon Kenshi and measures to "make costs prices visible" shall be promoted. This will improve the gross margin and establish a cost structure that can compete even in the overseas markets.

(5) Strengthening organizational capabilities: cross selling

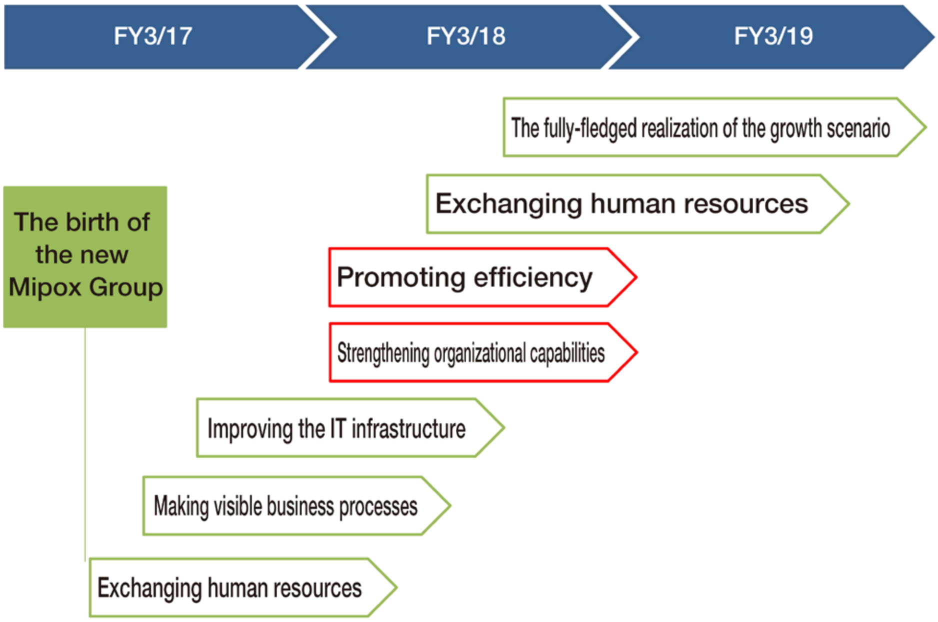
The Company has established three brands with wide product lineups, of Mipox, Ref-lite, and Nikken and they shall be further strengthened and customers provided with comprehensive solutions tailored to their needs. In terms of sales also, whereas Mipox tends to develop sales with technical support, Nihon Kenshi is more orientated toward route sales. So customer satisfaction will be increased by efficiently combining these two approaches.

(6) Strengthening organizational capabilities: exchanges of human resources

In February 2017, the head office was relocated from Tachikawa to Shinjuku. At the same time, the Nihon Kenshi employees in the Tokyo sales office were transferred to the Shinjuku office. As a result, exchanges between the employees of Mipox and Nihon Kenshi have become more active, which is increasing their understanding of each other's products, and in such ways efforts are being made to solidify the organization toward achieving higher sales.

The implementation of these measures can be summarized as follows.

Strengthening organizational capabilities



Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Continues to stably pay dividends based on a dividend payout ratio of 25%

As its policy of returning profits to shareholders, the Company is paying an annual dividend of ¥10. Its basic policy is to stably pay dividends targeting a dividend payout ratio of 25% and going forward, it intends to stably return profits to shareholders in accordance with the profit trend.

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